

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen  
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2004 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 100% of the revenues and 96.5% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 80% of the assets and 100% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 9 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction on governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 17 through 30 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 29, 2004 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgeting detail, combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
October 29, 2004

**City of Manchester, New Hampshire**  
**Management's Discussion and Analysis**  
**June 30, 2004**

As management of the City of Manchester, New Hampshire (the "City") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented herein along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

**Financial Highlights**

- ◆ On a government-wide basis of the primary government, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$407.3 million. Total net assets for Governmental Activities at fiscal year-end were \$82.7 million and total net assets for Business-Type Activities were \$324.6 million. The unrestricted net assets at June 30, 2004 were \$11.8 million or 2.9% of the City's total net assets.
- ◆ On a government-wide basis, during the fiscal year, the City's net assets increased by \$24.5 million or 6.4%, from \$383 million to \$407.3 million. Net assets increased by \$11 million for Governmental Activities and net assets increased by \$13.3 million for Business-Type Activities. Government-wide expenses were \$177 million, while revenues were \$201.3 million.
- ◆ At the close of the fiscal year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$154.5 million, an increase of \$122.4 million from the prior fiscal year. Of the total fund, \$4.9 million is available for spending at the government's discretion, which represents the combined unreserved fund balance in the general fund, special revenue funds and permanent funds.
- ◆ At the end of the current fiscal year, the total fund balance for the general fund alone was \$25.1 million, an increase of \$2.2 million from the prior fiscal year. Included in the fiscal year 2004 budget was an appropriation of \$1.6 million of unreserved and undesignated fund balance. As of June 30, 2004, \$1.4 million of the total general fund fund balance represents unreserved general fund balance. Unreserved and undesignated general fund fund balance at year-end represents 1.3% of total general fund expenditures and transfers (\$107.8 million).

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The statement of activities presents information showing how the government's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City of Manchester that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District ("MSD"), the Manchester Transit Authority ("MTA") and the Manchester Development Corporation ("MDC").

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 32-35 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds, as discussed in the Letter of Transmittal, for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 94-95 and in the combining statement of revenues, expenditures and changes in fund balance on pages 96-97.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 39.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 36-37 of this report.

**Proprietary funds.** The City of Manchester maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Manchester uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City of Manchester. Conversely, both of the remaining funds are combined into a single,

aggregated presentation in the proprietary fund financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 99-101 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 40-42 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 43-44 and 72-73 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-81 of this report.

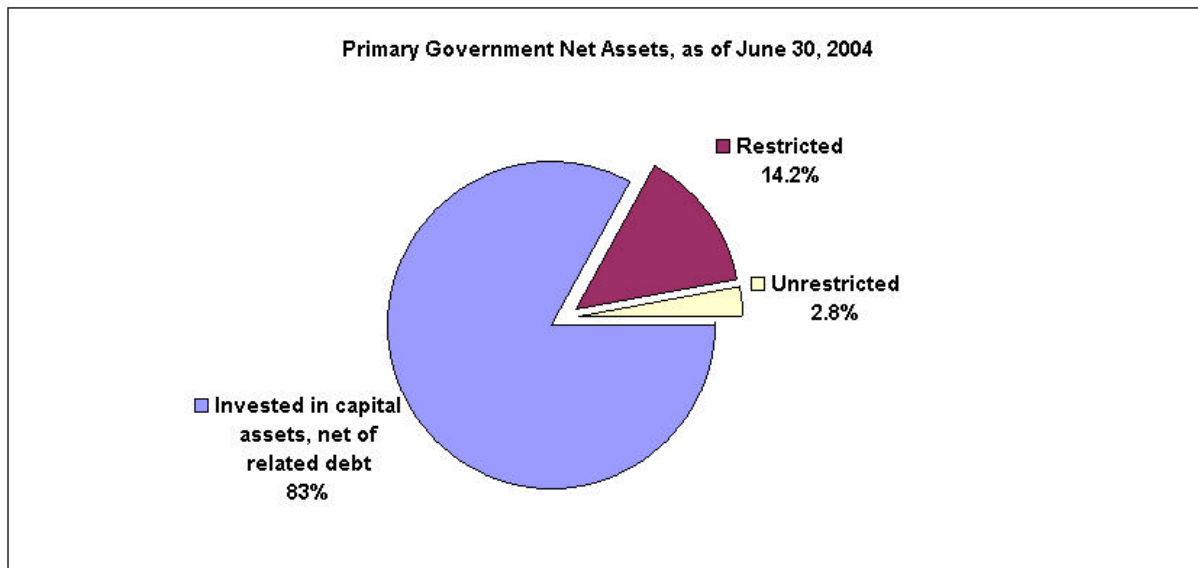
The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$407.3 and \$383 million at June 30, 2004 and 2003, respectively.

**City of Manchester, New Hampshire**  
**Net Assets (\$000's)**  
**Primary Government**

	June 30, 2004			June 30, 2003		
	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Current and Other Assets	\$ 254,912	\$ 127,240	\$ 382,152	\$ 116,468	\$ 134,779	\$ 251,247
Non-Current	17,931	5,610	23,541	18,187	8,081	26,268
Capital Assets	216,039	572,833	788,872	173,781	517,958	691,739
<b>Total Assets</b>	<b>488,882</b>	<b>705,683</b>	<b>1,194,565</b>	<b>308,436</b>	<b>660,818</b>	<b>969,254</b>
Current Liabilities	109,641	39,092	148,733	84,079	23,185	107,264
Long-term liabilities outstanding	296,522	342,012	638,534	152,643	326,332	478,975
<b>Total Liabilities</b>	<b>406,163</b>	<b>381,104</b>	<b>787,267</b>	<b>236,722</b>	<b>349,517</b>	<b>586,239</b>
Net Assets:						
Invested in capital assets, net of related debt	94,438	243,640	338,078	84,480	225,163	309,643
Restricted	19,162	38,493	57,655	17,545	41,479	59,024
Unrestricted	(30,881)	42,446	11,565	(30,311)	44,659	14,348
<b>Total Net Assets</b>	<b>\$ 82,719</b>	<b>\$324,579</b>	<b>\$ 407,298</b>	<b>\$ 71,714</b>	<b>\$311,301</b>	<b>\$383,015</b>



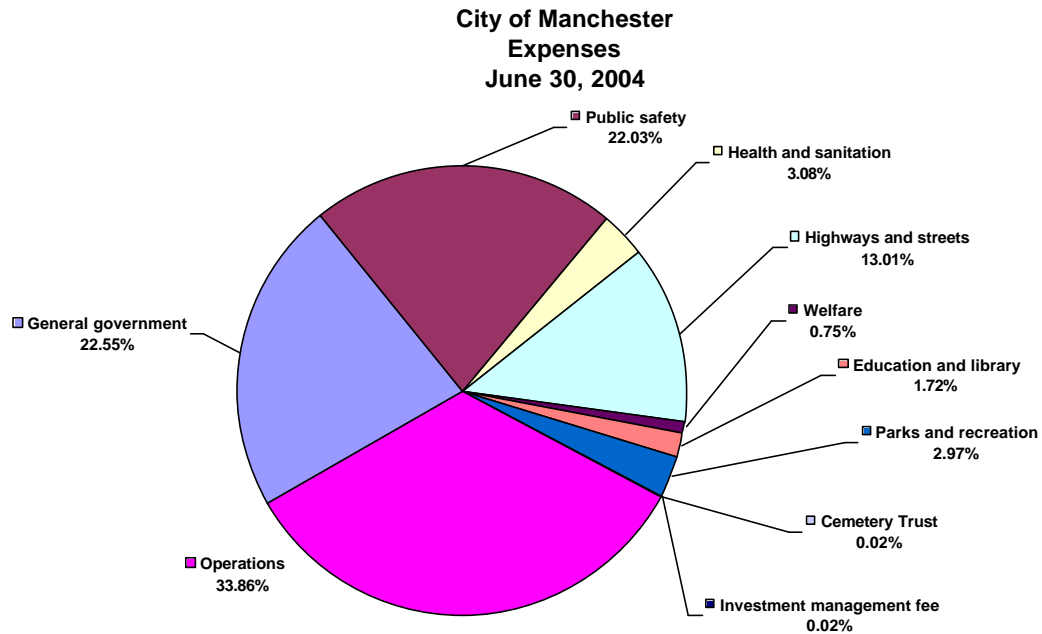
At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

The portion of the City's net assets of \$338.1 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

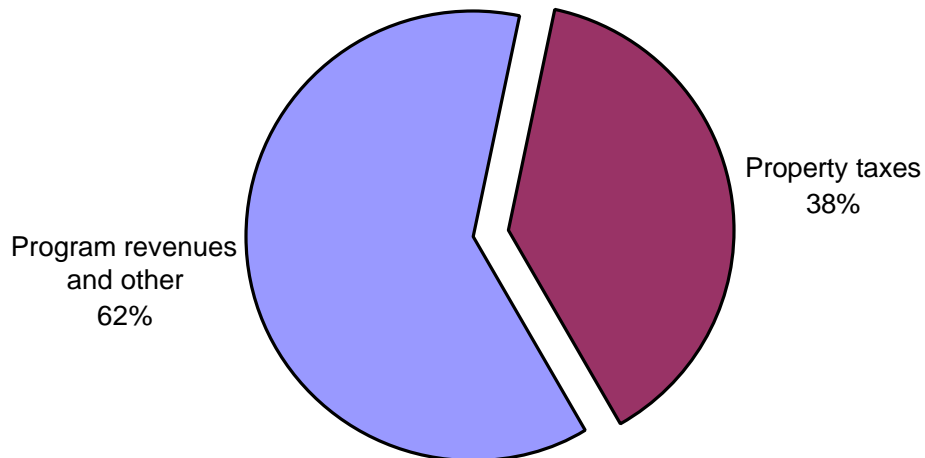
The portion of the City's net assets that are restricted, \$57.4 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$30.9) million may not be used to meet the government's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the issuance of the 1993 Fiscal Year Conversion Bonds, which were issued to properly fund revenue and expenditure timing differences, which has an outstanding balance of \$2,926,872 as well as related Capital Appreciation Bonds accrual of \$2,838,210, the Pension Obligation Bond with an outstanding balance of \$16,559,456, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$14,460,027, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$3,465,554, Urban Renewal Related Projects with outstanding balances of \$2,839,921, Revaluation debt with an outstanding balance of \$1,657,130, long-term debt related to insurance claims with an estimated outstanding balance of \$4,064,092, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$7,151,726 at June 30, 2004.

<b>City of Manchester, New Hampshire</b> <b>Changes in Net Assets (\$ 000's)</b> <b>Primary government</b>						
June 30, 2004			June 30, 2003			
<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Govern- mental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 22,783	\$ 71,028	\$ 93,811	\$ 20,866	\$ 65,829	\$ 86,695
Operating grants and contributions	24,127	4,188	28,315	20,824	7,094	27,918
Capital grants and contributions		4,637	4,637		29,199	29,199
General Revenues:						
Property taxes/auto/franchise fees	77,328		77,328	73,037		73,037
Unrestricted investment earnings	2,607	2,177	4,784	1,088	2,627	3,715
Transfers and other	1,137	(8,873)	(7,736)	5,837	(15,361)	(9,524)
<b>Total revenues</b>	<b>127,982</b>	<b>73,157</b>	<b>201,139</b>	<b>121,652</b>	<b>89,388</b>	<b>211,040</b>
<b>Expenses:</b>						
General government	39,884		39,884	32,561		32,561
Public safety	38,960		38,960	37,766		37,766
Health and sanitation	5,447		5,447	4,196		4,196
Highways and streets	23,004		23,004	28,905		28,905
Welfare	1,325		1,325	1,405		1,405
Education and library	3,036		3,036	3,817		3,817
Parks and recreation	5,259		5,259	4,724		4,724
Cemetery Trust	33		33	36		36
Investment management fee	29		29	23		23
Operations		59,879	59,879		60,220	60,220
<b>Total Expenses</b>	<b>116,977</b>	<b>59,879</b>	<b>176,856</b>	<b>113,433</b>	<b>60,220</b>	<b>173,653</b>
Change in net assets	11,005	13,278	24,283	8,219	29,168	37,387
<b>Net assets - beginning</b>	<b>71,714</b>	<b>311,301</b>	<b>383,015</b>	<b>63,495</b>	<b>282,133</b>	<b>345,628</b>
<b>Net assets - ending</b>	<b>\$ 82,719</b>	<b>\$ 324,579</b>	<b>\$ 407,298</b>	<b>\$ 71,714</b>	<b>\$ 311,301</b>	<b>\$ 383,015</b>





#### June 30, 2004 Primary government revenues



The City's net assets increased by \$24.3 million during the fiscal year, with net assets of Governmental Activities increasing by \$11 million, and net assets of Business-Type Activities increasing by \$13.3 million.

## **Governmental Activities**

More than 60% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, followed by 18.82% from operating grants, then 17.77% from charges for services and finally, about 3.08% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers.

Major revenue factors included:

- ◆ Total revenues, excluding transfers and other, increased by \$11 million.

## **Business-Type Activities**

Business-Type activities increased the City's net assets by \$13.3 million, which is a decrease of \$15.9 million from an increase of \$29.2 million for last year. See next page for more detail.

- ◆ Water Works net assets increased by \$1.7 million, down \$1 million from the increase in net assets of \$2.7 million last year.
- ◆ EPD net assets increased by \$1.8 million, up \$1.6 million from the increase in net assets of \$.2 million.
- ◆ Aviation net assets increased by \$4.9 million. Aviation fund capital contributions amounted to \$.8 million, a decrease from \$25.5 million the previous year .

## **Financial Analysis of the Fund Financial Statements**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$154.5 million, an increase from \$32.06 million as reported on June 30, 2003. Approximately 80.6% of this total amount constitutes unreserved and undesignated fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$16.44 million to cemetery, library and other trust funds; \$8.45 million to liquidate contracts and purchase orders of the prior period; \$2.72 million to self-insured workers' compensation claims reserve; \$1.7 million for advances to an enterprise fund and \$.6 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$1.36 million while the total fund balance reached \$25.07 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 17.68% of total general fund expenditures of \$105,377,773, while total fund balance represents 23.79% of that same amount.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Manchester Airport continued to experience real passenger growth in FY2004, approximately 10.5% higher than FY 2003. Operating income rose from \$4,768,019 in FY2003 to \$6,086,033 in FY2004, an increase of 27.6%. This increase was due to increased parking revenues resulting from the increased passenger growth. This operating income increase resulted despite increases in operating expenses, due to the accompanying greater expenses of operating a larger physical plant.

Net assets of the proprietary fund consisting of the Water Works were \$63.41 million, as compared to \$61.75 million in the prior year.

The unrestricted net assets of the Water Works was \$.11 million. The Water Works experienced operating revenues of \$11.86 million from user fees. There was a total net income for the Water Works of \$51,474 before capital contributions of \$1.61 million. The change in net assets for the fiscal year ended June 30, 2004 was \$1.66 million, due mainly to a rate increase and increase in capital contributions.

Total assets for EPD remained relatively flat with a \$145.7 million ending balance at June 30, 2004. EPD's cash decreased by \$5.3 million primarily due to paying cash, rather than incurring debt, for the construction and acquisition of capital resources. This resulted in a \$4.5 million increase in capital assets.

The fiscal year 2004 ending fund balance (fund net assets) is \$105.4 million. Investments in capital assets accounts for 75% of this total fund balance.

Capital contributions increased by \$1.7 million from fiscal year 2003 to 2004. More significant contributions include grants from the State of New Hampshire and Federal government, and sewer lines from developers.

### **General Fund Budgetary Highlights**

The City ended Fiscal Year (FY) 2004 with an improved balance sheet over FY 2003. The City's "rainy day" revenue stabilization fund remained at \$9,633,625. The City's unreserved and undesignated fund balance increased from \$1,304,404 to \$1,356,227, to maintain one percent of the FY 2004 tax warrants according to City ordinance. The tax rate stabilization, which contains an excess of one percent of the FY 2004 tax warrants, was decreased by \$1,339,664 to \$641,904. The special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) which increased to \$3,713,345. The City's reserves for workers compensation, health insurance, and general liability had an aggregate increase of \$442,786 or 8% from \$5,555,144 to \$5,997,930.

During the year, actual revenues and other financing sources on a budgetary basis were \$106.12 million, realizing an excess of \$324,820 over the estimated revenues and transfers of \$105,411,476. Actual tax revenues were over budget by \$217,323. Actual intergovernmental revenue was \$125,232 over budgetary estimates. Investment income was \$264,378 less than the \$1 million that had been budgeted. Additional shortfalls of \$152,358 resulted in licenses and permits. Nonenterprise charges for sales and services were \$13,391 more than budgeted. Other revenues were \$435,171 more than budgeted.